

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 CEA-01 TRSE-00 FRB-01 USIE-00
SSO-00 NSCE-00 AID-05 CIAE-00 COME-00 EB-08
INR-10 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01
OMB-01 SS-15 STR-07 PA-02 L-03 H-02 INRE-00
DOE-11 SOE-02 NEA-10 DOEE-00 /122 W
-----075013 011457Z /40

O R 011330Z MAR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC IMMEDIATE 5866
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY PARIS
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 979

FOR E AND EUR/EC

USMTN ALSO FOR MTN

USOECD ALSO FOR EMBASSY

PASS TREASURY, CEA AND FRB

EO 11652: N/A
TAGS: EFIN, ECON, SZ
SUBJ: US VISIT OF SWISS NATIONAL BANK GEN MGR LANGUETIN

REF: BERN 910

1. SUMMARY: SWISS NATIONAL BANK (SNB) PRESIDENT
LEUTWILER SAID FEB 28 THAT GENERAL MANAGER PIERRE
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LANGUETIN IS VISITING WASHINGTON TO URGE US AUTHORITIES
TO UNDERTAKE GREATER SUPPORT OF DOLLAR EXCHANGE RATE.
LEUTWILER SAID HE HOPED LATEST STEPS TO STEM
CAPITAL IMPORTS WOULD BE EFFECTIVE. HOWEVER DOLLAR
RATE FELL FEB 28. STOCK PRICES DROPPED IN HECTIC
MARKET AND BANKERS EXPRESSED VIEW MARKET HAS BEEN
"KILLED" FOR TIME BEING. SEVERAL SWISS ECONOMIC

GROUPS EXPRESSED SUPPORT FOR DRASTIC MEASURES AS NECESSARY TO CURB SF APPRECIATION, BUT OTHERS BELIEVED UNILATERAL EFFORT BY SWISS WOULD BE INEFFECTIVE. END SUMMARY.

2. SNB PRESIDENT LEUTWILER IN FEB 28 SPEECH BEFORE GENEVA CHAMBER OF COMMERCE SAID SNB GENL MGR PIERRE LANGUETIN HAS GONE TO WASHINGTON TO ATTEMPT ONCE AGAIN TO PERSUADE US AUTHORITIES THAT IT IS IN THEIR INTEREST TO SUPPORT THE DOLLAR. LEUTWILER SAID NOTHING CAN BE ARRANGED IN FOREX AREA WITHOUT AMERICANS. HE HAD IMPRESSION US HAS CHANGED ITS POSITION ON INTL COOPERATION. SAID US HAS CONCLUDED THAT DOLLAR HAS DECLINED TOO MUCH AND THERE IS RESULTING THREAT TO ECONOMIC RECOVERY IN STRONG CURRENCY COUNTRIES.

3. LEUTWILER SAID IT IS IMPORTANT FOR EUROPEAN TRADING PARTNERS TO INTENSIFY THEIR COOPERATION TO ENCOURAGE US TO PARTICIPATE IN STABILIZING FOREX MARKETS. BUT, ALTHOUGH SNB AND BNDESBANK COORDINATE AT TECHNICAL LEVEL, THERE IS DIVERGENCE OF VIEWS ON POLICY TO ADOPT TOWARD US. HE SAID BNDESBANK AND WEST GERMAN GOVT ARE POLITICALLY LESS INCLINED TO ACTIVELY CONFRONT US. NONETHELESS, SNB IS NOT RESIGNED AND INACTIVE IN ITS APPARENT ISOLATION. SNB WILL ENDEAVOR ATTENUATE SF APPRECIATION THROUGH UNCLASSIFIED

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MARKET INTERVENTIONS EVEN TO EXTENT OF "TEMPORARILY" ABANDONING MONEY SUPPLY GROWTH RATE TARGET. HOWEVER, SNB WILL NOT IMPOSE EXCHANGE CONTROLS OR DUAL EXCHANGE RATE.

4. REGARDING LATEST MEASURES ON FOREIGN CAPITAL INFLOWS TO REDUCE UPWARD PRESSURE ON SF EXCHANGE RATE, LEUTWILER SAID INITIAL EFFECTS HAD BEEN GOOD AND HOPED THEY WOULD LAST. HE CAUTIONED, HOWEVER, AGAINST EXPECTING TOO MUCH TOO SOON.

4. ON SWISS ECONOMY, LEUTWILER SAID 1978 AND FOLLOWING YEARS WILL BE DIFFICULT. RECOVERY WILL CONTINUE BELOW 1977 GROWTH RATE. SOLUTION IS NOT FOR GOVT STIMULATION BUT FOR INCREASED PRIVATE INVESTMENT WHICH DEPENDS ON EXPORT PERFORMANCE. PROFIT MARGINS HAVE DIMINISHED OR DISAPPEARED SO THAT LOW LEVEL OF INVESTMENTS IS INSUFFICIENT TO OFFSET RECESSIONARY FORCES. INELASTICITY OF SALARY LEVELS LEAVES SOLE OPTION OF RATIONALIZATION THROUGH LABOR FORCE REDUCTIONS. RESULTING LOWER CONSUMPTION SHOULD NOT JEOPARDIZE RECOVERY, HOWEVER, BECAUSE CONSUMPTION

GROWTH HAS MOSTLY BOOSTED CONSUMER IMPORTS. LEUTWILER DOES NOT BELIEVE IN RECOVERY THROUGH MONETARY EXPANSION WHICH HE SAID ONLY DELAYED NECESSARY STRUCTURAL ADJUSTMENTS IN COUNTRIES FOLLOWING SUCH POLICY AND THREATENED RENEWED INFLATION. SAID SWISS SHOULD NOT SACRIFICE PRICE STABILITY FOR EXPORT INDUSTRY.

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6. SWISS FINANCIAL MARKETS WERE HECTIC FEB 28
IN WAKE OF NEW RULE BARRING FOREIGN INVESTMENTS.
ZURICH STOCK MARKET EXPERIENCED HEAVY TURNOVER;
PRICE LOSSES RESULTED FOR NEARLY ALL REGISTERED
STOCKS TRADED. BASEL MARKET WAS LESS ACTIVE BUT
MOST TRADED STOCKS HAD LOSSES. CREDIT SUISSE SHARE

INDEX FELL 11 POINTS TO 250; SEPARATE INDEX FOR
BANK SHARES FELL 22 POINTS TO 337.9. BOND
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PRICES FELL UP TO 6 PERCENT FOR FOREIGN SF BOND ISSUES
AND 2.5 PERCENT FOR DOMESTIC ISSUES.

7. SEVERAL PRIVATE BANKERS SAID LATEST MEASURES
HAVE EFFECTIVELY "KILLED" THE MARKET. SAID SITUATION
DOES NOT COMPARE WITH 1972 WHEN SIMILAR STEP
WAS TAKEN TO DISCOURAGE CAPITAL IMPORTS BECAUSE:
A) ECONOMIC SITUATION IS DIFFERENT; B) THERE WAS NO
NEGATIVE INTEREST ON FOREIGN ACCOUNTS IN 1972,
FOREIGNERS COULD SELL SHARES AND RETAIN SF; C)
FOREIGNERS COULD THEN BUY AND SELL WITHIN ALLOTTED
CEILING OF THEIR ACCOUNT. SOME BELIEVE SWISS INSTITUTIONAL
INVESTORS WILL SHOW RENEWED INTEREST IN BEARER SHARES.
SWISS BANKERS' ASSOC AND INDUSTRIALISTS EXPRESSED
UNDERSTANDING WITH RULES AGAINST CAPITAL IMPORTS;
SAID MONETARY AUTHORITIES HAD NO OTHER CHOICE AND
EXPRESSED HOPE EFFECT WOULD BE BENEFICIAL. OTHER
OBSERVERS ARGUE THAT DOLLAR EXCHANGE RATE DECLINE
FEB 28 WAS PROOF OF INEFFECTIVENESS OF SWISS MEASURES.

8. DOLLAR RATE AGAINST SF DROPPED FROM SF 1.8725 TO
SF 1.8588 IN ZURICH FEB 28. SOME DEALERS ATTRIBUTED
DECLINE TO INSUFFICIENT US INTERVENTION TO SUPPORT
DOLLAR, UNSOLVED US TRADE IMBALANCE, AND STATEMENT
BY IRANIAN FINANCE MINISTER FOLLOWING MEETING WITH US
TREAS SECY THAT OPEC SHOULD CONSIDER REPLACING DOLLAR
AS BASIS FOR OIL PRICES. PRESS ALSO REPORTED SKEPTICISM
FROM FRANCE AND LACK OF WEST GERMAN SUPPORT FOR
LATEST SWISS MEASURES TO CURB SF APPRECIATION.
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Decaption Note:
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Disposition Approved on Date:
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Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
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